

1-1-1978

## Washington report, vol. 7 no.26, August 21, 1978

American Institute of Certified Public Accountants.

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### Recommended Citation

American Institute of Certified Public Accountants., "Washington report, vol. 7 no.26, August 21, 1978" (1978). *Newsletters*. 647.  
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# AICPA *Washington Report*

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## CIVIL AERONAUTICS BOARD

Clarification of the procedures to be followed in reporting for lease capitalization on Form 41 Schedules B-12 and B-14 was issued by the Board on 8/8/78 (see Accounting and Reporting Directive No. 70). Under a previously released directive, "Disclosure Standards for Lease Transactions," air carriers were offered several options in implementing the lease disclosure standards of Statement of Financial Accounting Standards No. 13, "Accounting for Leases," applicable to capitalizable leases entered into before January 1, 1977. Subsequently, the Board has noted many inconsistencies in the filing of Schedule B-12, "Statement of Changes in Financial Position," which have caused problems for schedule users. They are now requesting that, in order to achieve uniform reporting among carriers, activity for the quarter during which leases entered into before 1/1/77 are capitalized should be reported on Schedule B-12 just as if these leases had actually been capitalized from inception. In addition, amounts for capitalized leases entered into during the reporting period should be shown as "Long-term debt incurred" and "Acquisition of property and equipment."

The Board also attempted to clarify reporting on Schedule B-14, "Summary of Property Obtained Under Long-Term Leases," stating that the only data to be reported on this schedule are those concerning capitalizable leases which have not yet been capitalized. Thus, once a carrier has submitted an initial "negative" report on Schedule B-14, it is exempt from subsequent filing of this schedule.

## COMMERCE, DEPARTMENT OF

"New Directions in Commerce," the 1977 annual report of the Secretary, is now available to the public. The report provides a general description of the Department's organizational structure and administrative program. In addition, it includes sections devoted to specific areas of regulation, such as minority business enterprise, economic development, and international business. Copies of the report may be obtained from the GPO for \$2.75 each (S/N 003-000-00539-9).

Revised regulations concerning financial responsibility for water pollution affecting maritime carriers appeared in the 8/11/78 Fed. Reg., pp.35704-18. The regulations provide that fiscal responsibility may be established through self-insurance. A person may qualify as a self-insurer by maintaining working capital and net worth, each in the amount of \$150 per gross ton of the largest vessel to be self-insured or \$250,000, whichever is greater. Maintenance of the required working capital and net worth for self-insurance must be demonstrated upon initial application, and annually thereafter, by the submission of a current, nonconsolidated balance sheet and a nonconsolidated statement of income and surplus, certified by an independent CPA.

## FEDERAL RESERVE BOARD

A bill to restrict the ability of foreign banks to establish new branches in the U.S. outside of their home states and to provide for the first time federal regulation of foreign banks' U.S. affiliates was approved by the Senate on 8/15/78. The proposal (H.R.10899) will probably go to conference with a less restrictive version approved by the House in April (see 4/10/78 Wash. Report). The Senate bill also contains language designed to revitalize "Edge Act" corporations, which are domestic bank subsidiaries offering international banking services, such as financing U.S. export operations, and are often located outside the parent bank's home state. The bill would also allow foreign banks to establish federally chartered branches

or agencies in any state, provided the foreign bank is not already operating a state-chartered subsidiary in that state, and state law does not prohibit branches or agencies. Foreign banks also could convert their state-chartered subsidiaries into federally-chartered affiliates.

The Senate bill would grant the Comptroller examination authority for federal branches and agencies, while federally insured state branches would be examined by state agencies, and by the FDIC. Non-federally insured state branches and all state agencies and commercial lending companies would be examined by the appropriate state authorities or by the FRB. In addition, all foreign bank affiliates would be subject to special examination by the FRB.

#### HEALTH, EDUCATION, AND WELFARE, DEPARTMENT OF

Efforts to move the Administration's hospital cost containment proposal in the Senate are underway. Relying on the help of Sens. Gaylord Nelson (D-Wisc) and Edward Kennedy (D-Mass), the Administration has indicated a strong desire to salvage parts of its original plan which have been rejected by both the Senate Finance Committee and the House Commerce Committee. The Nelson and Kennedy proposals will come up as amendments to H.R.5285, a tariff bill which will serve as the vehicle to get the issue of cost containment back before the House before the end of the session.

#### LABOR, DEPARTMENT OF

Three days of hearings on suggested improvements and "streamlining" of the 1974 pension reform law were held last week. The hearings were jointly sponsored by the Senate Human Resources Subcommittee on Labor and the Senate Finance Subcommittee on Private Pension Plans and Employee Fringe Benefits. The witnesses included representatives from the DOL, Treasury, SEC, AFL-CIO, Business Roundtable, small business representatives, church groups, financial institutions, and professionals involved in ERISA administration.

Andrew Capelli and Joseph Elmlinger of the AICPA's Employee Benefit Plans and ERISA Committee testified on two bills of specific interest to CPAs. They involved the issues of auditor reliance on the work of actuaries and the question of establishing accounting standards for pension plans. Mr. Capelli pointed out that auditors can in most circumstances use the work of an actuary in making their audits, but legislation that would require them to rely on an actuary's work would force them to disclaim an opinion because of the significant restriction on the scope of the examination.

Mr. Elmlinger stated that legislation to require the Secretary of the Treasury to establish accounting principles was unnecessary since the FASB, the accounting profession, and the actuarial profession in conjunction with the Labor Department are making progress toward that objective (several of the other witnesses also supported this view.)

Anyone wishing to receive one free copy of the Institute's testimony may do so by contacting the AICPA Washington Office prior to 8/30/78 and requesting Document 26-1. Telephone requests are encouraged and should be directed to extension 47.

A new pamphlet telling participants in private pension and welfare plans how to file claims for their benefits is now being distributed. The pamphlet, entitled "How to File a Claim for Your Benefit," outlines the steps necessary for filing a

claim, tells how soon plans must issue a decision on a claim, and explains what participants can do if their claim for benefits has been denied. Copies of the publication are available free from local Labor-Management Services Administration offices of the DOL.

#### NATIONAL CREDIT UNION ADMINISTRATION

The Administration's Annual Report for 1977 has been released. Included in the report are a background sketch on credit unions, an overview of federal credit unions today, and sections detailing the Administration's work in areas such as insurance, internal audit and investigation, planning and finance, and research and development. Copies of the report are available by writing to the National Credit Union Administration, Washington, D.C. 20456.

A "Manual of Laws Affecting Federal Credit Unions" is now available. The Manual was compiled for the purpose of assisting the officials and staff of Federal credit unions to understand and comply with various Federal statutes and regulations. The laws covered in the publication are primarily consumer-oriented, and have a direct impact on the day-to-day operations of a credit union. The manual is designed to replace the Manual of Statutes Affecting Credit Unions. The content has been expanded and updated, and appendices have been added to create a complete reference source. The new manual will be available soon on a subscription basis for \$22 from the GPO (S/N 054-000-81002-4).

#### OVERSEAS PRIVATE INVESTMENT CORPORATION

Final regulations prescribing the procedures and conditions under which individuals and companies may be disqualified from receiving the services of the Overseas Private Investment Corporation (OPIC) because of their conviction under the Foreign Corrupt Practices Act of 1977 appeared in the 8/15/78 Fed. Reg., pp. 36064-65. These regulations establish the criteria that will be followed in deciding whether an individual or company will be suspended from eligibility for OPIC services. Finally, the regulations outline the effect that a suspension will have on an individual or company and how such a suspension can be voided. These regulations implement provisions of section 237(l) of the Foreign Assistance Act of 1961, as amended.

#### SECURITIES AND EXCHANGE COMMISSION

It's official. A. Clarence Sampson, CPA, has been named Chief Accountant at the SEC after serving as Acting Chief Accountant for almost 2 years. Mr. Sampson received his B.S. from the University of Maryland in 1953 and is a CPA in the state of Maryland. After six years of diversified experience Mr. Sampson joined the SEC staff in 1959 and has served in progressively more responsible positions. He has taught accounting and business finance for the University of Maryland in its off-campus program. A frequent speaker at AICPA National Conferences, Mr. Sampson will be featured at the Savings and Loan Conference to be held on 9/28 and 9/29/78 in Washington, D.C.

Also announced was the appointment of Ralph C. Ferrara to replace Harvey Pitt as General Counsel. Mr. Ferrara has been serving as executive assistant to the Chairman and has been on the SEC staff since 1971.

Speaking to the lawyers gathered at the American Bar Association's annual meeting, Chairman Williams discussed the recent "experiences" the CPAs have undergone with respect to the issues of ethics and discipline. "I would commend to your careful

study the drama which is continuing to unfold concerning whether regulation of the independent accounting profession should be made a subject of federal legislation," stated the Chairman. He went on to point out that there are many similarities in the activities and responsibilities of the two professions.

#### SMALL BUSINESS ADMINISTRATION

Notice of an extension of the comment period on the proposal to increase the size standard for accounting and auditing services was published in the 8/14/78 Fed. Reg., p.35944. The extension is being granted, following numerous requests, in order to assure the widest possible participation by members of the industry. Comments are now due on or before 9/13/78. For additional information, contact John D. Whitmore at 202/653-6373.

#### TREASURY, DEPARTMENT OF

Hearings were held this past week by the House on the subject of fringe benefits taxation. Rep. Pickle (D-Tex), Chairman of the Ways and Means Committee Task Force on Employee Fringe Benefits, stated that he preferred legislation which would take the "safe harbor" approach and would provide guidelines for determining whether or not a particular fringe benefit is taxable as income.

Donald Lubick, Treasury Assistant Secretary for Tax Policy, told the panel that although the Department has not as yet decided what approach it will endorse, "our inclination is that development of principles that could be universally applicable probably would be the superior approach and that it would not be wise to have a catalogue of which fringe benefits are or are not taxable."

IRS Commissioner Kurtz said fringe benefits are an increasingly popular form of compensation, that the variety of such benefits is large and growing, and that an examination of the area should be comprehensive. He added that whatever is determined to be taxable should be collectible without the expenditure of undue compliance resources and one way to accomplish this is to dovetail withholding at the source with whatever benefits are taxable.

Temporary regulations which provide instructions on how to exclude from the new carry-over basis provisions up to \$10,000 worth of personal and household effects appeared in the 8/4/78 Fed. Reg., pp.35920-21. Because of the need to have the regulations take effect immediately, a comment period was not included. The temporary regulations apply to estates of decedents who died after 12/31/76.

The Ways and Means Committee has filed its report on H.R.13488 which would restore the exclusion for income earned by Americans working abroad (Sec.911) to its level prior to the Tax Reform Act of 1976. Under the bill, the flat income exclusion would be allowed only in areas other than Canada and Western Europe. However, deductions would be allowed in all foreign countries -- including Canada and nations in Western Europe -- for excess foreign cost-of-living, housing, education, and annual home leave costs.

The bill will probably come before the full House after the Labor Day Recess, and it may come as an amendment to H.R.9251, the Tax Treatment Extension Act.

The Senate has passed its own version of a tuition tax credit bill. The bill would allow a maximum tax credit of \$250 per student beginning August 1, 1978, with an increase in the credit to \$500 per student on August 1, 1980. In the House a similar bill (H.R.11274) was supported by the leadership, but the sponsors were unable to bring it to the floor for a vote. The tuition tax credit measure

will now go to conference, where the question of aid for private elementary and secondary schools will have to be determined. However, the bill still faces a Presidential veto and a constitutional test.

Proposed revisions of Treasury Department regulations governing advertising and solicitations by persons who practice before the Internal Revenue Service have been labelled as "too restrictive" by the Justice Department. The proposed rule changes, which were prompted by recent court decisions on the issue, would apply to all attorneys, CPAs, enrolled agents, and others who represent clients before IRS.

In comments filed with Treasury on August 14, the Justice Department pointed out that the proposed Treasury rule changes "neither support the concept of advertising nor encourage its use" as outlined by the Supreme Court in the Bates case.

SPECIAL: HOUSE PASSES EFT BILL

The Electronic Fund Transfer Act, H.R.13007, was passed by the House on 8/11/78 by a vote of 314-2. The purpose of the Act is to amend the Consumer Credit Protection Act to establish rights, responsibilities, and remedies for all participants in the utilization of electronic fund transfer systems. H.R.13007 would mandate the first Federal limit on an individual's liability for unauthorized use of electronic equipment, and, in addition to traditional banking services, it would cover such transactions as preauthorized bill payments and direct deposit of salaries into accounts. The legislation applies to commercial banks, mutual savings banks, savings and loan associations, and credit unions. The Senate Banking Committee has reported S.3156 which is somewhat different in scope than H.R.13007.

The AICPA commented to the sponsor of H.R.13007 concerning the limitations on access to consumer account information (Section 914), stating that independent CPAs who conduct examinations must have access to such information as part of their duties.

For additional information contact:  
Susan Retter or Steven Woolf  
202/872-8190

## **AICPA** *Washington Report*

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